MID INDUSTRIES AND EXPLORATIONS LIMITED

21ST ANNUAL REPORT — DECEMBER 31, 1976

REPORT OF THE DIRECTORS

To the Shareholders:

FINANCIAL POSITION

The strengthening of the overall automotive market in the latter half of 1976 made it possible for your Company to enjoy an increase in total sales and earnings for the year.

Sales and earned income were $35,573,654 compared with a 1975 figure of $33,679,699. Earnings before an extraordinary item were $230,582 as compared with $200,946 in 1975. After an extraordinary item resulting from an income tax recovery of $34,000, the net earnings after taxes were $264,558 ($0.053) per share in 1976 as compared with $245,946 ($0.049) per share in 1975.

Working capital increased $75,988 to $1,266,219 at year end. Cash flow increased from 20¢ per share in 1975 to 25¢ per share in 1976. A capital distribution of $100,000 ($0.02) per share was paid in 1976.

COMPANY OPERATIONS

The operating divisions of the Company's principal subsidiary, Mid Transportation Services Ltd., operated in a very satisfactory manner during the course of the year.

Dingwall Ford Sales located at 6333 Tecumseh Road East in Windsor continued a strong performance and ended up the year showing an increase in both sales and profits. Again this division was responsible for a large part of the company's earnings in 1976.

Sherway Ford Truck Sales located at 1575 The Queensway in Etobicoke showed a modest sales and profit increase for the year. Operations at Mid Collison did not show any improvement during the course of the year and a decision was made to combine it with the Sherway Leasing division in order to operate a separate leasing, sales and service operation in our 40,000 sq. ft. building located at 177 North Queen Street in Etobicoke.

Indications are that the combination of this very modern facility and the integration of the management and personnel involved in these divisions will produce a winning combination that should show substantial profits in future years.

NATURAL GAS INTERESTS

The gross overriding royalty on the 22,000 acres which the Company owns in the Princess area of Alberta produced a gross income of $35,293 in 1976. As this property is only partially developed, it is expected that income from these interests should substantially increase in future years.

The 75% interest in the 3-1/4 sections of land in the Medicine Hat area of Alberta has not produced the quantity of gas expected during the year and consideration is being given to doing further development on this property during the summer months.

The cash flow from these gas interests was $197,774, before royalties and operating expenses. The contribution to overall profit during the course of the year was $22,106 which included all operating costs, interest and depletion costs of $26,000.

EMPLOYEE DEFERRED PROFIT SHARING PLAN

Based on the results of 1976, a contribution of $24,000 was made to the plan. Most of the funds were invested in the common shares of Mid Industries and Explorations Limited, with the result that employees presently own approximately 5.5% of the equity of the company through this plan.

MANAGEMENT CHANGES

At a Director's meeting in November, Mr. W. G. Dingwall became Chairman of the Board of Directors of the Company and, Mr. A. D. Patterson, previously a Vice-President of the Company, was elected President. Mr. R. J. Girard, previously a Vice-President of Mid Transportation Services Limited, was elected President of this Company whose Head Office is located in Windsor, Ontario.

OUTLOOK

The Company's operating divisions have started the year with strong performances in all operating divisions. Our orders on hand for future delivery of cars and trucks have exceeded our expectations. We therefore feel that the year 1977 will be satisfactory for the Company. We are also hopeful that our income from our Alberta Gas interests will show some increase during the year.

APPRECIATION

The continuing support of our customers and suppliers during the past year has been particularly gratifying to all of us associated with the Company.

The enthusiasm and dedication of our employees has been very evident and on behalf of the Board of Directors, I would like to express their sincere appreciation.

Respectfully submitted,

W. G. DINGWALL
CHAIRMAN

MID INDUSTRIES AND EXPLORATIONS LIMITED

DIRECTORS	W.G. DINGWALL, Toronto, Ont. R.J. GIRARD, Windsor, Ont. S. McKEOUGH, Cedar Springs, Ont. A.D. PATTERSON, Toronto, Ont. N.M. SHAW, Montreal, Que. J.R. SHEMILT, Willowdale, Ont. H.S. TENNANT, London, Ont.	HEAD OFFICE	Suite 1010 615 Dorchester Blvd. West Montreal, Que. H3B 1P9
		EXECUTIVE OFFICES	110 Church Street Toronto, Ont. M5C 2G6
OFFICERS	W.G. DINGWALL, Chairman A.D. PATTERSON, President R.J. GIRARD, Vice-President R.I. MARTIN, Q.C. Secretary Treasurer MISS EDITH GRAF, Asst. Secretary H.S. TENNANT, Asst. Treasurer	CO-TRANSFER AGENTS AND REGISTRAR	ROYAL TRUST COMPANY 630 Dorchester Blvd. West Montreal, Que. H3B 3L5 ROYAL TRUST COMPANY Royal Trust Tower P.O. Box 7500-Station "A" Toronto, Ont. M5W 1P9
LISTED	Montreal Stock Exchange	AUDITORS	Clarkson, Gordon & Co. Windsor, Ont.

COMPARATIVE HIGHLIGHTS

	1976	1975
Sales	$35,573,654	$33,679,699
Income before tax and extraordinary items	433,582	409,946
Net income before extraordinary item	230,582	200,946
Net income after extraordinary item	264,582	245,946
Earnings per share	0.053	0.049
Capital distribution	100,000	100,000
Capital distribution per share	0.02	0.02
AT DECEMBER 31st		
Shareholders' equity	2,060,969	1,896,387
Equity per common share	0.41	0.38
Working capital	1,266,219	1,190,231
Cash flow from operations	1,287,695	1,060,223
Cash flow per share	0.26	0.20
Total employees	241	218
Total payroll for the year	3,529,772	3,207,411
Total employee benefits	208,777	136,828
Net income as a % of sales, excluding extraordinary items	.6%	.5%
Net income as a % of shareholders' equity	11.3%	10.6%

MID INDUSTRIES
AND EXPLORATIONS LIMITED
(No Personal Liability)
(Incorporated under the Quebec Mining Companies Act)

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1976

ASSETS

	1976	1975
Current:		
Marketable securities, at cost less provision for loss (market value 1976 - $159,681 1975 - $92,613)	$ 90,150	$ 90,150
Accounts receivable	4,615,035	2,972,491
Inventories (note 2)	6,287,401	4,534,464
Deferred income taxes	42,000	19,000
Prepaid expenses	61,489	28,840
Total current assets	11,096,075	7,644,945
Lease:		
Lease purchase contracts, net of deferred revenue	1,147,110	1,181,269
Leased vehicles, at cost less accumulated depreciation of $969,398 ($691,086 in 1975)	2,998,968	2,227,603
Rental vehicles, at cost less accumulated depreciation of $1,857 ($21,075 in 1975)	2,000	33,709
Net lease assets	4,148,078	3,442,581
Gas interests (note 3)	640,581	600,428
Fixed, at cost:		
Furniture and fixtures, equipment and leasehold improvements	867,790	794,890
Less accumulated depreciation and amortization	529,489	448,382
Net fixed assets	338,301	346,508
Other:		
Long-term accounts receivable (note 4)	31,250	41,250
Excess of cost of shares acquired over fair value of underlying net assets of subsidiary companies at date of acquisition	739,509	739,509
Total other assets	770,759	780,759
	$16,993,794	$12,815,221

On behalf of the Board:

Director

Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current:		
Bank indebtedness	$ 588,248	$ 621,557
Accounts payable and accrued liabilities	1,271,568	1,092,516
Customer deposits	134,737	119,769
Income and other taxes payable	168,544	99,353
Lien notes (note 5)	7,381,756	4,182,999
Deferred revenue	49,003	23,020
Current portion of long-term liabilities (note 6)	236,000	315,500
Total current liabilities	9,829,856	6,454,714
Long-term liabilities (note 6)	4,576,969	4,039,120
Deferred income taxes	526,000	425,000
Shareholders' equity:		
Capital stock (note 7) –		
Authorized:		
7,500,000 common shares of no par value		
Issued:		
5,000,000 shares	2,031,257	2,131,257
Retained earnings (deficit) (statement 2)	29,712	(234,870)
Net shareholders' equity	2,060,969	1,896,387
	$16,993,794	$12,815,221

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. Summary of significant accounting policies:

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned, including Mid Transportation Services Limited and Windsor Car Rentals Limited, an inactive company. All significant intercompany accounts and transactions have been eliminated.

(b) Inventories
Inventories are valued at the lower of cost or replacement cost on a basis consistent with that of the prior year.

(c) Lease purchase contracts
A subsidiary company enters into a significant number of lease agreements in which the cost of the vehicles is recovered from the lease payments. In accordance with current accounting practice the present value of the future payments under the contracts is recorded in the balance sheet under the caption "lease purchase contracts". The normal gross profit on the unit is taken into income at the time the contract is written and the balance, consisting of financing income, is taken into income over the life of the contract.

In addition a lesser number of units are purchased and leased back to the customers and the cost of the vehicle is recovered from the lease payments. Income is recorded over the life of the contract.

(d) Leased vehicles
A subsidiary company enters into lease agreements with customers under which the present value of lease payments results in a residual value for the vehicles. Such vehicles are recorded as "leased vehicles" and are depreciated to their estimated realizable value over the period of the related lease agreements. Monthly billings are taken into income, and depreciation, interest, and other expenses are included in costs.

(e) Rental vehicles
A subsidiary company operates a truck and trailer rental business on a daily, weekly or monthly basis. Rentals are taken into income as earned. The cost of the vehicles involved in this business is being depreciated over their estimated useful lives.

(f) Gas interests

The Company follows the full-cost method of accounting wherein all costs relative to the exploration for and development of gas reserves, whether productive or non-productive, are capitalized and are being depleted on the unit of production method based on estimated proven reserves of gas including royalty interest. Interest on the debenture and gas development bank loan and administrative costs are charged to expense as incurred.

(g) Equipment and leasehold improvements

Depreciation is provided at rates which are designed to write off the cost of the assets over their estimated useful lives.

Depreciation on furniture, fixtures and equipment is provided on the declining balance method generally at a 20% rate. Leasehold improvements are amortized on the straight-line method at a 10% rate.

(h) Excess of cost of shares

The excess of cost of shares acquired over fair value of underlying net assets of subsidiary companies at date of acquisition arose during 1971 and is not being amortized.

(i) Deferred revenue and warranty

The manufacturer provides initial warranty on vehicles. A subsidiary company provides optional extended warranty on new automobiles generally for a two year period. Revenue from this source less expenses applicable thereto has been recorded as deferred revenue to be taken into income when the warranty period expires or the contract is terminated.

A subsidiary company also provides extended warranty on used automobiles generally for one year. A provision has been made for possible costs which may arise from this warranty which provision will be taken into income when the warranty period expires.

A subsidiary company also provides optional rust inhibitor warranty on automobiles and light trucks. A provision has been made for possible costs which may arise from this warranty which provision will be taken into income when the warranty period expires or the contract is terminated.

(j) Deferred income taxes

The company follows the tax allocation principle of providing for income taxes, resulting in deferred income taxes. Deferred income taxes are set up with respect to capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts and other timing differences. Deferred income taxes included in current assets result from revenue deferred for accounting purposes but currently includable in income for tax purposes and costs charged in the accounts, principally warranty, which are not currently deductible for tax purposes.

(k) Sales

Sales are recorded when the customer takes delivery of the unit.

(l) Earnings per share

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year.

2. Inventories:

	1976	1975
New vehicles	$5,044,412	$3,295,636
Used vehicles	527,516	528,506
Parts, accessories and other	715,473	710,322
	$6,287,401	$4,534,464

3. Gas interests:

The company has:

(a) a 3.3% gross overriding royalty on certain gas wells in the Princess area of Alberta. The company's cost of its investment and related expenses of acquisition is $261,700. Royalties received in 1976 were $35,000.

(b) a 75% working interest is proven gas reserves in the Medicine Hat area of Alberta. The company's cost for this field is $374,881, of which $308,728 was incurred in 1975 against which draws on the bank loan were $230,000 and $66,153 was incurred in 1976 and the balance of $130,000 was drawn. The company pays for all development and production costs and recovers 25% of certain costs from the remaining interest holder. The company's share of revenue, before royalties payable, interest and other expenses amounted to $162,000 in 1976.

Depletion and depreciation amounting to $26,000 was provided during the year.

4. Long-term accounts receivable:

During the year ended April 30, 1970, 125,000 shares were issued to a director and officer of the company for $71,250. These shares are presently being held in escrow pending payment therefor. In accordance with the terms of the agreement under which the shares were issued, and subsequent amendments thereto, the balance which was to be settled on April 30, 1977 has been extended to provide for an instalment of $10,000 on April 30, 1977 and the balance of $31,250 on April 30, 1978.

5. Lien notes:

The lien notes payable are secured by liens on specific new vehicles and company and service vehicles. In addition, a subsidiary has assigned accounts receivable - vehicles as collateral for extended terms on the lien notes.

6. Long-term liabilities:

	1976		1975
	Current	Long-term	Long-term
Demand bank loan, at the prime bank rate plus 2%	$120,000	$ 140,000	$ 140,000
Demand bank loan, at the prime bank rate plus 1½%	14,000		14,000
Lien notes at varying rates of interest and maturities:			
Leased vehicles and lease purchase contracts		3,955,090	3,293,005
Rental vehicles			12,764
Debenture at the prime bank rate plus 2% due 1978	52,000	434,003	485,988
Conditional sales contracts, at varying interest rates and maturities	22,000	38,330	54,897
Chattel mortgage at 8% due 1978	28,000	9,546	38,466
	$236,000	$4,576,969	$4,039,120

Lien notes on leased vehicles and lease purchase contracts maturing in 1977 and subsequent years are offset in each year by payments due on lease agreements with customers and in certain cases by anticipated proceeds on the sale of vehicles in the year in which the lease agreement expires. Accordingly, lien notes on leased vehicles and lease purchase contracts maturing in 1977 are not included in current liabilities.

The principal repayment requirements on lien notes on leased vehicles and lease purchase contracts are due as follows:

1977	1978	1979	1980	1981	Total
$1,546,594	$1,311,121	$890,745	$174,967	$31,663	$3,955,090

The principal payment requirements except for lien notes, are due as follows:

1977	1978	1979	Total
$236,000	$583,549	$38,330	$857,879

The debenture is secured by a fixed and specific mortgage on certain equipment and a first floating charge on all other assets. Under the terms of the debenture, the subsidiary company must maintain a certain debt to equity ratio.

Other covenants in the agreement restrict or deny borrowing additional money, making loans or advances, pledging or assigning assets and guaranteeing liabilities.

All of the covenants have been complied with.

A subsidiary company has arranged for a further debenture to provide working capital up to a maximum of $450,000 depending on the net amounts receivable from the Ford Motor Company of Canada Limited. The security for any amounts advanced under this agreement is similar to that given under the debenture described above and an assignment of accounts receivable - vehicles, subject to the prior assignment to the bank. The total amount of both debentures cannot exceed equity, as defined.

Substantially all of the assets of the Company and its subsidiaries have been pledged as collateral for debt outstanding.

The company's investment in the shares of Mid Transportation Services Limited has been assigned as collateral security for the bank loans and it has undertaken not to further encumber its 3.3% royalty interest.

7. Capital stock:

During 1976 the Company made a further capital distribution of $100,000 to its shareholders thereby reducing its paid-up capital. These distributions

are not taxable but reduce the adjusted cost base of the shares held by shareholders. The company has undertaken not to pay dividends or make capital distributions in excess of 50% of consolidated net earnings.

8. Contingent liabilities and contractual obligations:

(a) A subsidiary company has discounted customer sales contracts with finance companies. The maximum contingent liability for losses in the event of repossessions could amount to approximately $553,000 ($897,000 in 1975).

(b) The subsidiary company leases rental vehicles from the manufacturer which must be purchased at the end of the term. The total commitment to purchase rental vehicles amounted to $737,000 ($367,000 in 1975).

(c) Under contractual obligations with respect to leased premises the company and its subsidiaries are committed to aggregate annual rental payments of approximately $262,000 to 1978 and approximately $178,000 in 1979, and approximately $83,000 from 1980 to 1988.

(d) The Company has entered into a contract with Dinvest Management Limited to provide general management services to the end of 1980 at a fee of $50,000 per year plus an incentive bonus of 10% of the earnings before income taxes which bonus is not to exceed $50,000 in any year. Such fees and bonus amounted to approximately $57,193 (nil in 1975) of which $15,526 (nil in 1975) is included in accounts payable at December 31, 1976.

Under a contract with Dinvest Management Limited providing for general management services to the operating automotive dealerships to the end of 1980 negotiated during the year, a subsidiary company is committed to a monthly management fee of $15,000 plus an incentive bonus of 20% of the earnings before income taxes, which bonus is not to exceed $180,000 in any one year. Such fees and bonus amounted to approximately $272,227 ($315,600 in 1975) of which $62,202 ($90,620 in 1975) is included in accounts payable at December 31, 1976.

These management fees and incentive bonuses are subject to an annual adjustment based on any increase or decrease in "The Consumer Price Index".

9. Income taxes:

The company incurred exploration and development expenses in the year amounting to $66,153 and $672,214 in prior years which may be deducted from certain types of Canadian oil and gas revenue. In addition, in prior years, the company incurred exploration and development expenses amounting to $440,000 which may be deducted for tax purposes in a year in which the company's principal business is mining, or production of oil and gas, or certain related activities. Of these $511,786 was written off in the accounts in prior years and $26,000 in the current year.

In addition, the company has an allowable capital loss of $25,000 which is available to offset future taxable capital gains.

The Province of Alberta Royalty Credit amounting to $12,000 in 1976 has been deducted from income taxes otherwise payable.

10. Anti-Inflation Program:

Effective October 14, 1975 the federal government passed The Anti-Inflation Act and subsequently issued regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on shareholder dividends or capital distributions. Dividends or capital distributions to the company's shareholders during the year ending October 13, 1977 may not exceed $.0216 per share.

11. Comparative amounts:

Some amounts in 1975 have been reclassified to conform with the presentation adopted in 1976.

MID INDUSTRIES AND EXPLORATIONS LIMITED
(No Personal Liability)

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1976
(with comparative amounts for 1975)

	1976	1975
(Deficit), beginning of year	($234,870)	($480,816)
Net earnings for the year (statement 3)	264,582	245,946
Retained earnings (deficit), end of year	$ 29,712	($234,870)

(See accompanying notes)

MID INDUSTRIES
AND EXPLORATIONS LIMITED
(No Personal Liability)

CONSOLIDATED STATEMENT OF NET EARNINGS

YEAR ENDED DECEMBER 31, 1976
(with comparative amounts for 1975)

	1976	1975
Sales and earned income	$35,573,654	$33,679,699
Costs and expenses:		
Cost of sales and expenses exclusive of the undernoted items	33,255,799	31,652,208
Depreciation, depletion and amortization -		
Gas interests	26,000	
Leased and rental vehicles	812,602	650,536
Furniture and fixtures, equipment and leasehold improvements	83,511	88,741
Interest -		
Long-term liabilities	582,666	491,992
Other	379,494	386,276
	35,140,072	33,269,753
Earnings before income taxes and extraordinary item	433,582	409,946
Income tax provision - current	102,000	134,000
- deferred	101,000	75,000
	203,000	209,000
Earnings before extraordinary item	230,582	200,946
Extraordinary item:		
Income tax reductions resulting from application of losses of prior years and expenses not previously claimed for tax purposes	34,000	45,000
Net earnings for the year	$ 264,582	$ 245,946
Earnings per share:		
Before extraordinary item	$ 0.046	$ 0.040
Extraordinary item	0.007	0.009
For the year	$ 0.053	$ 0.049

(See accompanying notes)

MID INDUSTRIES
AND EXPLORATIONS LIMITED
(No Personal Liability)

STATEMENT 4

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1976
(with comparative amounts for 1975)

	1976	1975
Funds were provided from:		
Operations -		
Earnings before extraordinary item	$ 230,582	$ 200,946
Add items not requiring an outlay of funds:		
Depreciation, depletion and amortization -		
Gas interests	26,000	
Leased and rental vehicles	812,602	650,536
Furniture and fixtures, equipment and leasehold improvements	83,511	88,741
Deferred income taxes	101,000	75,000
	1,253,695	1,015,223
Income tax reductions	34,000	45,000
	1,287,695	1,060,223
Provision for reduction of loan to a director	10,000	5,000
Proceeds of new debenture		550,000
Less repayment of existing debentures		518,991
		31,009
	1,297,695	1,096,232
Funds were expended on:		
Additions to lease purchase contracts and leased and rental vehicles	2,873,128	2,526,781
Less increase in lien notes	2,868,712	2,480,962
	4,416	45,819
Additions to fixed assets	75,301	93,342
Investment in gas interests (note 3(b))	66,153	308,728
Less portion financed by long-term debt	130,000	230,000
	(63,847)	78,728
Payment of lien notes	2,219,395	1,872,550
Less book value of lease purchase contracts, leased and rental vehicles disposals	1,355,030	1,279,875
	864,365	592,675
Payment and provision for payment of other long-term debt	241,472	272,352
Distribution of share capital	100,000	100,000
	1,221,707	1,182,916
Increase (decrease) in working capital	75,988	(86,684)
Working capital, beginning of year	1,190,231	1,276,915
Working capital, end of year	$1,266,219	$1,190,231

AUDITORS' REPORT

To the Shareholders of
Mid Industries and Explorations Limited:

We have examined the consolidated balance sheet of Mid Industries and Explorations Limited as at December 31, 1976 and the consolidated statements of net earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the consolidated affairs of the company as at December 31, 1976 and the consolidated results of its operations and the consolidated changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Windsor, Ontario,
February 18, 1977.

Chartered Accountants